

November 17, 2005

**Dissenting Views on H.R. 4297
Tax Relief Extension Reconciliation Act of 2005**

Several months ago, Hurricane Katrina forced America to see poverty and its consequences every night on the evening news. For many in New Orleans, poverty was the difference between the ability to escape the disaster and being left behind to face the consequences of the Hurricane with little or no assistance from the Federal government.

The failure of the Federal government to react quickly and effectively to the Hurricane forced President Bush to respond. He made a stirring speech vowing to rebuild New Orleans regardless of the cost. His speech also expressed concern about the growing divide in this country between the rich and the poor.

Both before and after that speech, Americans have been exposed to the real plight of poverty in this country. The number of people in poverty has increased by 5.4 million under Republican policies between 2000 and 2004. The number of children alone in poverty increased by 1.5 million. The Census Bureau reported that the number of Americans in poverty increased by 1.1 million in 2004, and the poverty rate increased to 12.7%. Today a total of 37 million Americans live in poverty.

Watching the chilling footage of Hurricane Katrina brought home a reality that is all too real to poor people in America: poverty can be a death sentence. Poor children are more likely to suffer chronic health problems, lower cognitive scores, and lower school achievement. The real tragedy is that those who are left to fend for themselves in the most dire conditions become trapped in a cycle of poverty — children who experience persistent poverty are more likely to be poor as adults.

President Bush's speech and the evidence of increasing poverty gave hope that at long last the American people would see the compassionate side of President Bush's "compassionate conservative" agenda. But a decent interval has passed. President Bush and his Republican supporters in the Congress have returned to their true agenda of cutting programs protecting the most vulnerable in our society and reducing taxes on the most fortunate.

Even in light of the fact that the number of Americans in poverty has grown by millions over the last four years, Congress will soon vote on a budget bill that cuts health coverage, food assistance, and student aid to needy Americans. Other programs, including Temporary Assistance for Needy Families (TANF), the Child Care and Development Block Grant, and the Social Services Block Grant will not be allowed to keep pace with inflation, so they too will decline in real terms. There is no compassion in the Republican agenda for the most vulnerable Americans.

This nation also is involved in a war in Iraq. This will be the first war in our country's history where only those in the military and the poor will be forced to sacrifice. This will be the only time when we will cut taxes for wealthy individuals during a war. The Congressional Research Service (CRS) recently estimated the total cost of military activities in Iraq, Afghanistan, and for enhanced base security since September 11, 2001. The October 3, 2005, CRS report shows a total budget authority of \$311.7 billion for FY2001-FY2005, and \$214.6 billion for Iraq operations alone. This country faces a costly war, yet this Republican Congress sees fit to shield the wealthy from those costs, and even reward them with increased tax cuts. The sense of shared sacrifice that has characterized our history is missing.

The fact that these are not normal times makes it very easy to oppose the Committee bill that provides tax reductions disproportionately benefitting the truly wealthy. But even in normal times, it would be very easy to oppose the Committee bill.

- The Committee bill is another in a series of reckless tax cuts that continue to leave this country facing enormous deficits. The largest unfunded responsibility faced by this country is not Social Security or Medicare, it is interest on the national debt. Increasingly, we are ceding control of our future to foreign investors who have financed our recent deficits.
- The Committee bill also demonstrates that the many budgetary gimmicks used by the Republicans to hide the cost of their tax cuts have finally come home to roost. Even the Republicans now recognize that they cannot afford all of the tax cuts that they have promised in the big print of their bills. The Committee Republicans were faced with a choice. They could extend a tax cut for investors (a tax cut which does not expire until 2009 and over 50% of which will be enjoyed by individuals with annual incomes of over \$1 million) or they could avoid a tax increase (of up to \$3,380) on 15 million American families next year. Even we were surprised by their choice.
- A prime example of the flawed Republican priorities concerns our military. Some of our military serving in combat in Iraq will face tax increases next year because one of the few temporary tax benefits not extended by the Committee bill is a provision that provides a larger earned income tax credit to low-income families with a mother or father serving in Iraq. During the markup, the Committee Republicans refused to extend that tax benefit, hiding behind arcane Senate Budget rules which do not even apply in the House. But the excuse of those arcane Senate rules did not prevent the Committee Republicans from adopting other tax benefits to benefit a variety of other interests.

Exploding Deficit

When President Bush took office in January 2001, the projected ten-year (FY2002-11) budget *surplus* was \$5.6 trillion. Under Bush Administration policies, the budget outlook has deteriorated into a *deficit* of \$3.5 trillion (over the same period)—a swing of \$9.1 trillion.

The Congressional Budget Office (CBO) now estimates that the ten-year total budget deficit for FY2006-15 will reach more than \$2.1 trillion, and the on-budget deficit (excluding the temporary sound security surpluses) nearly \$4.6 trillion, based on current law (the required CBO baseline assumption). In addition, CBO estimates that the cost of making the tax cuts permanent would raise the ten-year deficit by nearly \$1.9 trillion, to \$4.0 trillion. If the higher exemption level in the AMT were also extended, with no offsetting provision, the ten-year deficit would increase by \$775 billion more.

The current federal debt limit (a gross debt measure) is \$8.184 trillion, and we are now less than \$200 billion away from that limit. Since President Bush took office, the limit has been raised by more than \$2.2 trillion. To make room for the President's current budget proposals, the Republican fiscal plan will raise the debt limit by another \$781 billion—for a total increase in the debt of around \$3 trillion.

Republicans repeatedly claim that the problem has been “runaway domestic spending,” but the fact is that most of the deterioration in the fiscal outlook has been due to the drop in revenues. Revenues fell from nearly 20.9 percent of GDP in 2000 to just 16.3 percent in 2004, while outlays increased from 18.4 percent to 19.8 percent (the bulk of which went to the costs of the war). Revenues had not been that low in 45 years.

One consequence of this out of control, borrow-and-spend budgeting is the rapid increase in the amount of U.S. Treasury

securities sold to foreign interests. Currently, foreign investors own more than \$2 trillion in U.S. bonds and notes. Furthermore, more than half of that amount is owned by foreign central banks.

Since 2001, foreign investors purchased close to 90% of the new debt held by the public. Clearly, foreign ownership of our publicly held debt has created a financial vulnerability with national security implications. A country cannot be the world's leading economic and military power if its government financing is dependent on funds from foreign countries, many of which oppose our policies.

Instead of ignoring this threat to our nation, we need decisive action, and that will not be possible without a bipartisan agreement. Therefore, the President and Congressional leaders need to stop discounting this crisis and come together to confront our fiscal problems. We owe it to the American people to act responsibly by sitting down together and devising a serious plan to keep America from going even deeper into debt.

Tax Increase on 15 Million Families

In recent years, the Congress has used a variety of budget gimmicks to hide the true cost of the tax reductions that are boldly promised in the big print of their tax cut legislation. Those gimmicks include phase-ins, sunsets, temporary provisions, and the alternative minimum tax (AMT).

The AMT is probably the largest and the most consequential of those budget gimmicks. According to the Joint Committee on Taxation, the 2001 and 2003 tax cuts almost tripled the size of the AMT problem, from \$400 billion over 10 years under prior law to \$1.139 trillion today. Again, according to the Joint Committee on Taxation, the individual AMT will deny \$739 billion of tax relief over the next ten years that was promised in the big print of the 2001 and 2003 tax cuts.

The individual AMT also dramatically changed the distribution of the 2001 and 2003 tax cuts. The AMT will limit the tax cuts provided to middle-income and moderately wealthy taxpayers while taking away relatively little of the tax cuts given to the very wealthy. In 2010, the AMT will take back only 9.2 percent of the promised tax cuts from individuals making more than \$1 million per year. In contrast, individuals with incomes between \$75,000 and \$100,000 will lose 21 percent of the tax cuts, and individuals between \$100,000 and \$200,000 will lose 47 percent of the tax cuts.

Even without the AMT, the recent tax cuts would disproportionately benefit upper income taxpayers. With the AMT, they will disproportionately benefit the super wealthy, those making more than \$1 million per year.

Next year, under the Committee bill, approximately 19 million families will be affected by the minimum tax, an increase from approximately 3.5 million this year. As a result, over 15 million families will face a tax increase next year compared to their liability in 2005. The size of the tax increase could be as much as \$3,380.

Even as millions of Americans face a tax increase due to a provision of law that expires in little more than six weeks, the Committee's bill instead concentrates on two provisions that do not expire until 2009.

President Bush and his Republican Congressional allies vow to make the Bush tax cuts permanent. But they ignore the fact that the AMT will repeal all or a portion of the Bush tax cuts for approximately 19 million families next year because of the choices made by the Committee bill.

There was another alternative. The Democratic substitute would have totally eliminated the AMT for all families with incomes under \$200,000. If that substitute had been adopted, the number of AMT taxpayers would drop next year from 19 million under the Committee bill to approximately 3 million. The substitute would

have eliminated the Republican tax increase on 15 million American families.

Conclusion

The Committee bill ignores the reality facing millions of Americans, and instead chooses to focus on the nation's most wealthy. The struggles of those in poverty fall into the shadows of giant tax cuts skewed to the richest of the rich Americans. The Republicans on this Committee have failed in their job to legislate responsibly in the interest of all Americans, especially those who have been left behind to fend for themselves by conservative Republican policies that offer no compassion.

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